

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-5-G - ORDER NO. 2005-653
NOVEMBER 8, 2005

IN RE: South Carolina Electric & Gas Company –)	ORDER APPROVING
Annual Review of Purchased Gas)	AND ADOPTING
Adjustments and Gas Purchasing Policies.)	SETTLEMENT
)	AGREEMENT

Commission Order No. 87-898, issued on August 14, 1987, requires that the Public Service Commission of South Carolina (“Commission”) conduct annual reviews of the Purchased Gas Adjustments and the Gas Purchasing Policies (“PGA”) of South Carolina Electric & Gas Company (“SCE&G” or “Company”). Pursuant to that order, the Commission opened the present docket for the purpose of conducting SCE&G’s 2005 Annual PGA Review. On June 7, 2005, the Commission issued a notice of hearing and set return dates for filing to intervene.

By letter dated June 7, 2005, the Commission instructed the Company to publish a notice in a newspaper of general circulation in the affected areas advising all interested parties of the manner and time in which to file pleadings to obtain the right to participate in this review. The Commission further instructed SCE&G to provide direct notification of the PGA review to each affected customer. The Company filed affidavits to confirm its compliance with the Commission’s instructions.

The South Carolina Office of Regulatory Staff (“ORS”) appeared as a party in this

matter pursuant to S.C. Code Section 58-4-10 (Supp. 2004). As the gas utility under review, SCE&G was made a party directly in the notice and appeared by counsel in the proceeding. The South Carolina Energy Users Committee (“SCEUC”) petitioned to intervene on July 6, 2005, and became a party upon the grant of that petition by the Commission. ORS, SCE&G and SCEUC are hereafter referred to collectively as the “Parties” or sometimes individually as a “Party.” No other parties sought to intervene in this proceeding.

On July 26, 2005 the Commission’s docketing department issued a scheduling directive to all parties establishing the dates for the parties to prefile testimony and exhibits in this case.

The period under review in this docket is November 1, 2004, to October 31, 2005, (“Review Period”) and the forecast period in this docket is November 1, 2005, to October 31, 2006 (“Forecast Period”).

SCE&G pre-filed the direct testimony of witnesses Kenneth R. Jackson, Martin K. Phalen, Harry L. Scruggs and Michael P. Wingo on September 22, 2005. On October 6, 2005, ORS pre-filed the testimony of witnesses Roy H. Barnette and Brent L. Sires. On October 17, 2005, all Parties to the proceeding filed a comprehensive Settlement Agreement (the “Settlement”) wherein they stipulated to a resolution of all issues in the proceeding. As provided for in that Settlement, the Parties pre-filed supplemental testimony in support of the Settlement by SCE&G witness Jimmy E. Addison and ORS witness Brent L. Sires.

A hearing in this matter was held before the Commission October 20, 2005. The

Honorable G. O'Neal Hamilton, Vice-Chair, presided. The ORS was represented by Wendy B. Cartledge, Esquire; C. Lessie Hammonds, Esquire; and Shannon Bowyer Hudson, Esquire. SCE&G was represented by Patricia Banks Morrison, Esquire; Belton Zeigler, Esquire; and Mitchell Willoughby, Esquire. The SCEUC was represented by Scott A. Elliott, Esquire.

Mr. C. Dukes Scott, Executive Director of ORS, opened the hearing with a statement concerning the status of natural gas supplies in national markets, and the unfortunate effects of Hurricanes Katrina and Rita on those markets. He explained why the Settlement negotiated by ORS and the other Parties, which reduced the requested increase in the cost of gas factor by 21%, was in the best interest of SCE&G's customers and the State of South Carolina, and how it reasonably protected the financial interests of the Company. The Commission then heard from three public witnesses who testified concerning the impact of increases in energy costs on their families and their neighbors.

By agreement of the Parties, the Settlement and all exhibits thereto were entered into evidence as Hearing Exhibit 1 along with all pre-filed testimony and exhibits of all party witnesses. At the hearing, all party witnesses took the stand and presented their pre-filed testimony subject only to questions by the Commissioners. SCE&G Witness Mr. Wingo was permitted by agreement of the Parties to update his testimony with graphs and slides showing the current conditions in natural gas markets and the effects of the recent hurricanes on gas production assets. The 28 slides presented by Mr. Wingo were entered into the record of the hearing as Hearing Exhibit 2.

After careful review of the Settlement Agreement and having reviewed,

considered and weighed the testimony of each witness, the Commission finds that approval of the Settlement Agreement is consistent with its established standards for PGA proceedings.

The Commission finds that the recent increase in natural gas prices nationally presents this Commission and the State of South Carolina with an unfortunate situation. Natural gas prices were already rising sharply last year. The disruption to supply caused by Hurricanes Rita and Katrina has sent prices to their current unprecedented levels. As indicated in the testimony in this proceeding, the cost per dekatherm of natural gas has risen 100% since last spring, from approximately \$7.00 to \$14.00.

The Settlement softens the immediate impact of these price increases by delaying SCE&G's recovery of \$21 million dollars in actual and anticipated undercollections of gas costs until 2006. Sustaining undercollections at these levels will cost SCE&G approximately \$1.5 million dollars in interest charges during the Forecast Period, although the Settlement provides that interest will accrue on uncollected amounts beginning November 1, 2006. The Settlement reduces the projected cost of gas by \$1.7 million by requiring SCE&G to deplete its current propane inventories and inject them into the distribution system during the winter months to further reduce gas costs. As part of this proceeding and the Settlement ORS audits SCE&G which ensures that the price increases being approved here are "pass-throughs" and do not result in any additional profits for the Company.

The Commission commends ORS, SCE&G and the South Carolina Energy Users Committee for arriving at this Settlement. The Settlement provides for a significant

softening of the immediate impacts of the increase in a way that the Company assures the Commission will not jeopardize its financial stability.

The Settlement represents a commendable compromise which the Commission supports. Specifically, the Commission also finds the Company's gas purchasing policies and practices during the Review Period were reasonable and prudent. The Commission further finds that the gas supply forecast for the period November 1, 2005, through October 31, 2006 as agreed to in the Settlement is just and reasonable. That forecast is set forth in Exhibit A to the Settlement. The Commission further finds that all matters contained in the Settlement are appropriate for adoption in this proceeding and therefore finds that the Settlement is in the public interest and is a reasonable resolution of the issues in this case.

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement attached hereto as Order Exhibit No. 1, which was accepted into the record without objection at the hearing, is incorporated into and made a part of this Order by this reference. Further, the Settlement is found to be in the public interest and constitutes a reasonable resolution to this proceeding and is hereby adopted as such.

2. SCE&G's gas purchasing policies and practices during the Review Period were within the guidelines established in prior Commission orders and were reasonable and prudent.

3. SCE&G properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

4. Beginning with the first billing cycle of November 2005, SCE&G's gas cost recovery factor shall be \$1.29729 for Residential, \$1.22218 for Small General Service / Medium General Service and \$1.19823 for Large General Service. The above gas cost factors reflect a Firm Commodity Benchmark for all firm customer classes of \$1.14135 per therm.

5. Beginning in December 2005, SCE&G shall be allowed to adjust its cost of gas factor on a monthly basis according to the procedure and methodology outlined in paragraph 6 of the Settlement.

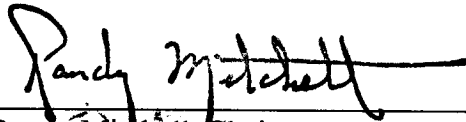
6. SCE&G's under collections of gas costs outstanding on or after November 1, 2006, shall bear interest under the terms of Paragraph 4 of the Settlement.

7. SCE&G may retire its propane air facilities. As to the upstream supply assets to be shared between the gas and electric departments, which assets the gas department intends to use as peaking resources, SCE&G shall allocate the costs associated with these assets using the allocation percentages set forth in Paragraph 5 of the Settlement Agreement (*i.e.*, 32.32% gas and 67.68% electric).

8. The Industrial Sales Program—Rider shall be continued without modification as approved in the Order issued in Docket No. 2005-113-G.


9. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Randy Mitchell, Chairman

ATTEST:



G. O'Neal Hamilton, Vice Chairman

(SEAL)

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2005-5-G

October 17, 2005

RECEIVED
2005 OCT 17 PM 4:49
SC PUBLIC SERVICE
COMMISSION

IN RE:

Annual Review of Purchased
Gas Adjustment and Gas Purchasing
Policies of South Carolina Electric and
Gas Company

SETTLEMENT AGREEMENT

This Settlement Agreement ("Settlement Agreement") is made by and among the Office of Regulatory Staff ("ORS"), South Carolina Energy Users Committee ("SCEUC"), and South Carolina Electric & Gas Company ("SCE&G" or "the Company") (collectively referred to as the "Parties" or sometimes individually as "Party");

WHEREAS, on June 7, 2005, the Public Service Commission of South Carolina (the "Commission") issued a notice of hearing and set return dates for the 2005 Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of SCE&G;

WHEREAS, the purpose of this proceeding is to review matters related to SCE&G's purchased gas adjustment factor and SCE&G's gas purchasing policies and the forecasts of SCE&G's future costs of purchased gas supplies;

WHEREAS, the period under review in this docket is November 1, 2004 to October 31, 2005, and the forecast period in this docket is November 1, 2005 to October 31, 2006;

WHEREAS, since the filing of the notice, ORS has issued numerous data request questions to SCE&G, and in response the Company provided responses addressing the information requested;

WHEREAS, ORS has audited the books and records of the Company and conducted inquiries and analyses related to SCE&G's purchased gas adjustment and gas purchasing policies and the forecasts of SCE&G's future costs of purchased gas supplies;

WHEREAS, ORS determined a) that apart from certain accounting adjustments totaling \$35,960, contained in Exhibit A hereto, during the period under review SCE&G properly administered the purchased gas adjustment and employed prudent gas purchasing policies inasmuch as the Company purchased all gas supplies from South Carolina Pipeline Corporation under Commission approved tariffs and procedures, and b) that SCE&G reasonably forecasted its future costs of purchased gas supplies for the forecast period;

WHEREAS, the Parties have engaged in discussions to determine if alternatives to the recovery of \$14,076,545 under-collections during the forecast period would be appropriate as well as whether an alternative to the use of the 12 month forecast of the cost of gas supplies for the period would be reasonable ;

WHEREAS, in light of the present fluctuations in the natural gas markets, and to lessen the impact on customers of unprecedented high gas prices during the current period, the Parties have agreed to the following comprehensive settlement of all issues in this docket;

WHEREFORE, in the spirit of compromise, the Parties hereby stipulate and agree to the following terms and conditions;

1) The Parties agree to stipulate into the record before the Commission this Settlement Agreement with Exhibit A attached hereto. The Parties also stipulate to the filing of supplemental testimony by witnesses Jimmy Addison and Brent Sires in support of the Settlement Agreement. At the hearing in this matter, the pre-filed testimony of SCE&G Witnesses Phalen, Jackson, Wingo, Scruggs, and Addison and ORS Witnesses Sires and Barnette will be presented without cross-examination by any Party.

2) ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the Settlement Agreement reached among the Parties serves the public interest as defined above.

3) For the purpose of setting the gas cost recovery factors in this proceeding, the Parties accept the use of SCE&G's cost of gas supply forecast for the period November 1, 2005 through October 31, 2006 as set forth on Exhibit A, attached hereto. This forecast reflects:

- a) Collection of SCE&G's gas supply under-collection costs for the period ending October 31, 2005, which is currently estimated to be \$14,076,545 will be deferred and collection will begin on November 1, 2006;
- b) An average of the forecasted natural gas supply costs over 24 months rather than the 12 month forecast period, which 24 month average lowers the resulting cost of gas factor, but results in an additional under-collection of gas supply costs during the forecast period of approximately \$7 million when coupled with the reduction resulting from Item (c) and paragraph (5) below; and
- c) The planned injection of approximately 230,488 dekatherms ("dt") of stored propane from SCE&G's two propane air facilities into its system during the months of December 2005 and January 2006 to provide customers with the benefit of this source of supply as these plants are to be retired. These propane supplies are carried at an average inventory

cost of approximately \$5.05 per dt. The estimated savings to customers from injection of this propane inventory is an additional \$1.7 million reduction in the cost of gas for the forecast period.

As to items a) and b) above, the Parties expressly stipulate and agree that the deferral of under-collections for future recovery and the use of a 24 month average for determining gas supply costs for the forecast period represent a departure from established practice and policy in the administration of SCE&G's purchased gas adjustment. This results in a total cost of gas factor for residential of \$1.29729 per therm, small and medium general services of \$1.22218 per therm, and large general services of \$1.19823 per therm as shown in Exhibit B.

4) As part of this comprehensive settlement, SCE&G agrees not to accrue interest on the under-collection through October 31, 2006. On and after November 1, 2006 until the under-collection is fully collected, the Parties stipulate and agree that the amounts remaining for future collection under Paragraph 3 above will bear interest compounded monthly. The applicable interest rate used to calculate the interest payments which SCE&G is authorized to collect will be the rate of interest as of the first day of each month for 10-year U.S. Government Treasury Bills plus an all-in spread of 65 basis points (0.65 percentage points).

5) The Parties stipulate and agree that SCE&G has demonstrated a need to retire its Columbia and Charleston propane air facilities. The Parties further stipulate and agree that SCE&G's plan for replacing the capacity represented by these propane air facilities, as set forth in the direct pre-filed testimony of Witness Phalen, will meet the additional supply and capacity requirements resulting from the retirement of the two propane air plants and forecasted customer growth. The Parties further stipulate and agree that the costs associated with 41,235 dt/day of upstream Jasper supply capacity shall be shared using allocators derived from the relative numbers of firm gas customers compared to firm electric customers, rather than the 50%-50% sharing proposed by the Company. Using this methodology, the allocators for the assignment of

costs to the gas division is 32.32% and to the electric division is 67.68%. The parties agree that this sharing arrangement is reasonable and should be approved.

6) In light of the current volatility in natural gas markets and the desire of the Parties to limit SCE&G's under-collection to no more than \$21,012,605 as of the end of the forecast period, the Parties agree that beginning in December 2005, SCE&G should be allowed to adjust its cost of gas factor on a monthly basis, according to the following procedure:

- a) Adjustments to the cost of gas factor may be made each month effective for bills rendered beginning with the 8th billing cycle of the month.
- b) Before the 8th billing cycle of each month, SCE&G will re-compute its forecast of natural gas supply costs for the month using the following methodology:
 - i) SCE&G will first determine any variance in the under- or over-collection from the prior month when compared to the forecasted over- or under-collection for that prior month as set forth in Exhibit A and included that variance in the recalculated forecast.
 - ii) SCE&G will also compare the forecast on which the cost of gas factor was computed in this proceeding (see Exhibit A hereto) to the updated forecast of comparable costs and firm sales volumes for the month.
 - iii) To the extent this calculation resulted in a material variance between the over- or under-collection forecast for the month on Exhibit A and the over- or under-collection forecast in the updated projection, SCE&G will re-compute the cost of gas factor for the month to reduce the variance for that month to zero.
 - iv) Until such time as the full under-collection, as set forth on Exhibit A, is reasonably calculated to be eliminated:

- (1) No over-collection will be carried forward from one month to the next and any over-collection will be applied directly against the under-collection balance to reduce same; and
 - (2) No adjustment in the cost of gas factor will be made if retaining the cost of gas factor set forth on Exhibit A would reduce the under-collection for the forecast period.
- c) SCE&G will notify the Commission and the Office of Regulatory Staff of any newly computed cost of gas factor by letter before the 8th billing cycle of the month. SCE&G agrees to include with the letter documentation supporting the new gas cost factor.
 - d) The cost of gas factor so computed would remain in effect for bills rendered through the 7th billing cycle of the subsequent month.
 - e) The cost of gas factor would be recomputed for bills rendered beginning with the 8th billing cycle of the following month, or if no adjustment was indicated, the cost of gas factor would revert to the factor set forth in Exhibit A.
- 7) The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.
- 8) The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other collateral proceedings, nor

will it constitute a precedent or evidence of acceptable practice in future proceedings. If the Commission declines to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

9) This Settlement Agreement shall be interpreted according to South Carolina law.

10) The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

WE AGREE:

Representing the Office of Regulatory Staff

Wendy B. Cartledge

Wendy B. Cartledge, Esquire
Shannon B. Hudson, Esquire
C. Lessie Hammonds, Esquire

Office of Regulatory Staff

Post Office Box 11263
1441 Main Street (Suite 300)
Columbia, SC 29211

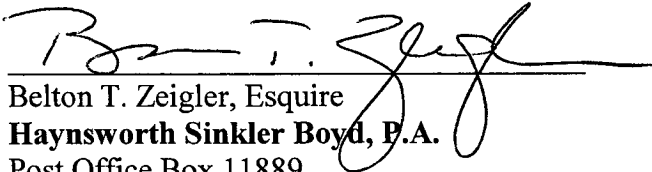
Phone: (803) 737-0853

Fax: (803) 737-0800

E-mail: wcartle@regstaff.sc.gov

WE AGREE:

Representing South Carolina Electric & Gas Company



Belton T. Zeigler, Esquire

Haynsworth Sinkler Boyd, P.A.

Post Office Box 11889

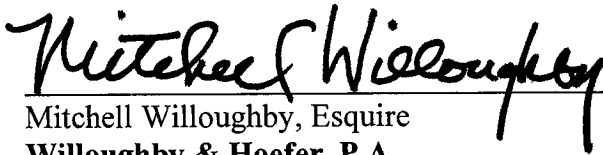
1201 Main Street, 22nd Floor

Columbia, South Carolina 29211-1889

Phone: (803) 779-3080

Fax: (803) 765-1243

Email: beltonzeigler@hsblawfirm.com



Mitchell Willoughby, Esquire

Willoughby & Hoefer, P.A.

Post Office Box 8416

1022 Calhoun Street, Suite 302

Columbia, SC 29202-8416

Phone: (803) 252-3300

Fax: (803) 256-8062



Patricia Banks Morrison, Esquire

South Carolina Electric & Gas Company

1426 Main Street, Mail Code 130

Columbia, South Carolina 29201

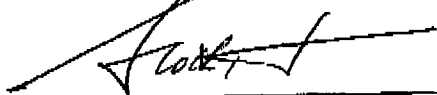
Phone: (803) 217-9356

Fax: (803) 217-7931

E-mail: tmorrison@scana.com

WE AGREE:

Representing South Carolina Energy Users Committee



Scott A. Elliott, Esquire

Elliott & Elliott, P.A.

721 Olive Street

Columbia, South Carolina 29205

Phone: 803-771-0555

Fax: 803-771-8010

Email: selliott@elliottlaw.us

EXHIBIT A

SOUTH CAROLINA ELECTRIC AND GAS COMPANY
OVER/UNDER COLLECTION
PROJECTED

	-As Filed- Sept. 14th Prices	2 year Average Prices	PROJECTED COMMODITY COST PER THERM (COL. 1)	REQUESTED COMMODITY COST PER THERM (COL. 2)	DIFFERENCE (COL. 3) (1-2)	PROJECTED FIRM SALES THERMS (COL. 4)	(OVER)UNDER COLLECTION (COL. 5) (3*4)	CUMULATIVE (OVER)UNDER COLLECTION (COL. 6)
BEGINNING BALANCE --								\$14,076,545
NOV 05	\$1.45862		\$1.14135	\$1.14135	\$0.317274	15,534,000	\$4,928,529	\$19,005,074
DEC 05	\$1.56128		\$1.14135	\$1.14135	\$0.419935	29,009,000	\$12,181,880	\$31,186,954
JAN 06	\$1.26548		\$1.14135	\$1.14135	\$0.124127	41,677,000	\$5,173,249	\$36,360,204
FEB 06	\$1.08923		\$1.14135	\$1.14135	(\$0.052123)	37,329,000	(\$1,945,688)	\$34,414,515
MAR 06	\$1.07026		\$1.14135	\$1.14135	(\$0.071089)	27,498,000	(\$1,954,801)	\$32,459,714
APR 06	\$0.92874		\$1.14135	\$1.14135	(\$0.212613)	17,482,000	(\$3,716,901)	\$28,742,813
MAY 06	\$0.95045		\$1.14135	\$1.14135	(\$0.190901)	10,064,000	(\$1,921,227)	\$26,821,586
JUN 06	\$0.98683		\$1.14135	\$1.14135	(\$0.154518)	7,791,000	(\$1,203,849)	\$25,617,737
JUL 06	\$1.01594		\$1.14135	\$1.14135	(\$0.125406)	7,145,000	(\$896,028)	\$24,721,709
AUG 06	\$0.79663		\$1.14135	\$1.14135	(\$0.344719)	7,118,000	(\$2,453,707)	\$22,268,002
SEP 06	\$1.02689		\$1.14135	\$1.14135	(\$0.114458)	7,096,000	(\$812,196)	\$21,455,806
OCT 06	\$1.08972		\$1.14135	\$1.14135	(\$0.051631)	8,584,000	(\$443,201)	\$21,012,605

EXHIBIT B

South Carolina Electric and Gas Company Development of Weighted DCOG Factor and Total Cost of Gas Factor

	Residential	SGS / MGS	LGS
DCOG	\$20,455,647	\$6,320,879	\$1,130,223
Weighted DCOG Factor	\$0.15594	\$0.08083	\$0.05688
CCOG Factor	\$1.14135	\$1.14135	\$1.14135
Total Cost of Gas Factor	\$1.29729	\$1.22218	\$1.19823